

Testimony of  
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**THE INTERNATIONAL TRADE DATA SYSTEM:  
CREATING NEW OPPORTUNITIES FOR AMERICA'S  
BUSINESS AND CONSUMERS  
IN THE 21<sup>st</sup> CENTURY**

International trade will be the most significant economic driver of growth and prosperity for the United States in the 21<sup>st</sup> Century. This is true even for areas that traditionally have not participated in international trade, and have thus not experienced trade's benefits—areas such as Kansas City in the heartland of America. However, the full potential of these benefits and prospects will not be realized unless Government changes in some very fundamental, yet feasible, ways. Government can and should be doing more to open up, expand and simplify international trade.

International Trade is an area of opportunity and growth for American business—especially for small & medium enterprises (SME's). Trade agreements and free trade policies have reduced duties and eliminated some of the barriers to international trade, but government processes have largely remained the same. In 1996, for example, 43% of all imports into the United States were duty-free. Through April of 1999, that number is now 58% duty-free.<sup>1</sup> However, the Government has failed to keep pace with the shift from revenue collection to non-revenue collection goals and interests such as health and safety.

Old, paper-based non-coordinated processes impose what amount to non-tariff barriers on importers and exporters. Imposing barriers of any kind on exporters is counterintuitive and counterproductive. A study performed in 1994 by the United Nations Conference on Trade and Development (UNCTAD) showed that the estimated total cost to the trade

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<sup>1</sup> United States Customs, Office of Information Technology Briefs, June 4, 1999.

community of meeting Government's international trade regulations requirements was 4% to 6% of the value of traded goods. This cannot continue if the United States wishes to remain competitive in the global marketplace. Reduction of the costs associated with Government processing in international trade is one of the only remaining untapped sources for productivity gain for U.S. businesses.

Here in Kansas City, as in other areas in the heartland of America, there are several organizations and individuals who are working very hard to realize the potential of "free trade." Despite the enormous efforts of organizations such as the North America Superhighway Coalition (NASCO), the Mid-America Regional Council (MARC), the Kansas City Chamber of Commerce, and individuals and the people of Kansas City, the positive effects of free trade will be greatly reduced by one single overarching feature—that is, the Government continues to process international trade as if modern communications measures and practices did not exist.

A study in July of 1998, conducted by the ETC Institute, in association with TranSystems Corporation, documented some compelling reasons for the lack of participation of Kansas City Area companies in international trade. The survey determined that, "a majority of freight carriers and large and small businesses surveyed would like to increase their international trade." The survey identified some of the chief reasons for not participating in international trade.<sup>2</sup> These are:

- Processes are too time consuming
- Too expensive to compete overseas
- Excessive paperwork
- Inconsistency of Customs regulations
- Too much risk is involved
- The bottleneck at the border crossing in Laredo, Texas

A program that directly addressed these and other similar impediments was the North American Trade Automation Prototype (NATAP). NATAP endeavored to standardize the data collected for international transactions, and to collect that data electronically. NATAP also made use of leading edge technology, such as dedicated short-range communications technology (DSRC) to provide arrival and departure notification for trucks. NATAP was the proof of concept for the International Trade Data System (ITDS).

## **ITDS**

ITDS is an inter-agency initiative designed to standardize and streamline international trade data processes within U.S. government agencies, at our borders, with our two North

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<sup>2</sup> *Kansas City International Trade Processing Center Study Stakeholder Interview Summary Report*, Conducted for Mid-America Regional Council and The Greater Kansas City Area Chamber of Commerce by ETC Institute, in association with TranSystems Corporation, July 24, 1998.

American trading partners (Canada & Mexico), and eventually to standardize and expand the trade process internationally. ITDS is an innovative, cross-agency initiative that aims to bring Government procedures more in line with current actual business practices, without compromising the need to enforce laws and collect duties.

More specifically, the ITDS concept is very simple. Traders will submit one commercially-based, standard electronic data record to the ITDS for imports, exports and in-transits. ITDS will distribute this standard record to the concerned federal trade agencies for their selectivity and risk assessment. Through one electronic message from ITDS, the trader and the port will be advised of the status of the shipment. ITDS simplifies trade. Imports and exports will be handled in the same manner and with the same data. ITDS eliminates the need to submit redundant information to multiple agencies so that businesses will no longer need to maintain complex, redundant systems for reporting trade activities and statistics to the Government. In standardizing the process, ITDS removes the confusion and complexity of international trade enabling more U.S. businesses to broaden their markets to buy and sell globally. For the Government, ITDS will provide more current and accurate information for revenue, public health and safety, enforcement activities, and statistical analysis.

The reality is that the current Government processing environment for international trade does not support the vision of a seamless global economy. It is a barrier to trade and effectively a tax on international trade that costs consumers, businesses, and government billions. Our “system” of processing goods at U.S. borders presents importers and exporters with a gauntlet of complex, confusing, and redundant requirements, forms, and reporting systems. For example:

- **Effecting an international trade transaction today takes more than a buyer and seller! On**

- \*27-30 different parties
  - \*40 documents
  - 200 data elements (30 of which are repeated at least 30 times)
  - Re-keying of 60-70% of all data at least once

*Source: Report to the Economic Leaders 1996, APEC Business Advisory Council, at 22 (October 24, 1996)*

Traders are required to send the same data electronically or via paper forms (or both) to multiple government agencies

- Traders are often unable to determine which agencies require data for a given import or export transaction

Traders are often confounded by incompatible data exchange methods, where electronic processing exists

ITDS is an integrated, government-wide system solution to these and other problems. It would standardize trade data requirements and processes, clarify and streamline reporting requirements, and implement the centralized electronic collection, use and dissemination of

international trade data within government. ITDS would be implemented first within the United States, and over time, could serve as a worldwide model, and as a new standard through which “digital government” facilitates international trade and e-commerce, and provides reliable international trade service at our borders.

Implementation of ITDS would result in tremendous savings for multinational traders and the consumers they serve. It would eliminate many of the inefficiencies in the current system; improve the speed of clearance processes; and improve compliance with import and export laws and regulations. It is estimated that by 2005, net benefits of ITDS for the United States could reach \$2 billion, a return of \$9 for every dollar spent.<sup>3</sup>

## INTERNATIONAL TRADE PROCESSES ARE IMPORTANT BECAUSE GLOBALIZATION AND INTERNATIONAL TRADE ARE INCREASINGLY IMPORTANT FACTORS IN THE U.S. ECONOMY

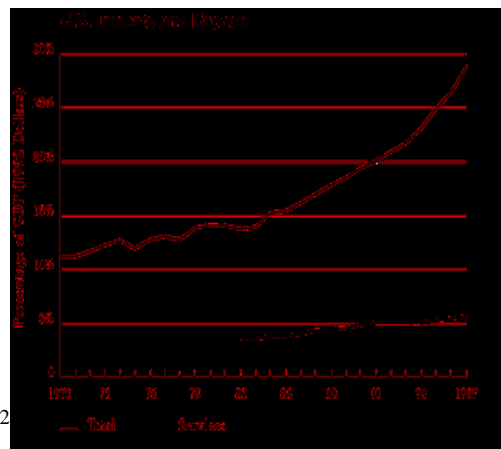
Total Services

**In the U.S., trade is grow**

\*Between 1970 and 1997, U.S. imports and exports grew three and a half times faster than GDP in 1992 dollars

\*U.S. exports and imports have increased from 11 percent of GDP in 1970 to 25 percent in 1997

Year



Percentage of GDP (1992 Dollars)

In the United States international

trade is growing faster than the domestic economy. Competition in global markets will be stiff and those countries, industries, and companies that have developed the infrastructure to support global trade will prosper while those that have not will suffer economically. Winners and losers in the global economy will be determined by success in establishing an environment that builds international competitive advantage through better and more efficient supply chains. This requires investment in transportation infrastructure (ports, harbors, roads, and rail), information technology, and financial systems, and supportive government policies which encourage trade and reduce risk, thereby driving costs down.

Source: The New Economy Index: Understanding America's Economic Transformation, pg. 11 (Progressive Policy Institute, November, 1998). Hereafter, New I

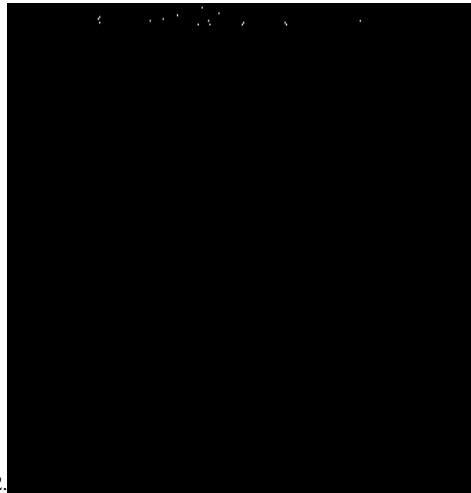
<sup>3</sup> *Cost Benefit Analysis for the International Trade Data System*, September, 1998.

Governments have tremendous influence over the competitiveness of their economies and companies—they make the investment decisions in transportation, technology, and communications infrastructures; define the domestic policies that shape financial and banking systems; and define the rules that control imports and exports. Collectively, those decisions and policies determine whether or not a country is a desirable locale for trade and investment and affect the success of their firms in the global marketplace. Governments are in the middle of all international supply chains, with opportunities to facilitate or disrupt, or sever supply chains on either side of every international border.

U.S.-based multinationals recognize the increased importance of improving global supply chains and reducing international logistics costs. There are four major impediments to improving the free flow of commerce among trading nations:

1. Inefficient processes and antiquated systems.  
Increasing regulations related to health, safety, food, and environmental issues.  
Deliberately protectionist policies.  
Inconsistent and non-standard data (information) requirements

#### FAILURE TO INVEST IN MODERNIZED, 21<sup>st</sup> CENTURY STANDARDS, PROCESSES AND SYSTEMS



Source: New Economy Index, Pg. 32.

While the capabilities of modern information systems have been exploding in recent years, governments have failed to invest sufficiently in, information technology, and upgrade business processes. In the U.S., between 1986 and 1996, business and consumer computer purchases increased by 22% and 38% per year, respectively. In that same period, government computer expenditures increased only 9.4% per year. Further, over the next decade, government computer purchases are expected to increase at an annual rate of only 1.2%, a rate that is 12 times slower than that predicted for business and 25 times slower than that for consumers.

Failure to invest in government information technology to support processing of goods at the nation's borders has a direct impact on business, consumers, and government. For

businesses, complex, slow, redundant, or manual processing substantially increases supply chain and transaction costs and inhibits the development of just-in-time inventory and lean manufacturing systems. For consumers, it means less choice and higher costs for products. For government, it means higher costs, lower compliance, and missed opportunities for capturing better information about the international trade in which our country is engaged.

The cost of catching up and rebuilding infrastructure, and the danger of failure of the existing systems is increasing each year. The existing system that serves U.S. importers is 15 years old, has exceeded its life expectancy, and is in danger of collapse if it is not upgraded or replaced. Work on systems modernization and replacement is not enough.

In today's digital world, government and industry, manufacturers and suppliers, and buyers and sellers, are connected and interdependent. Witness the Y2K concerns, and the need for governments and businesses to ensure that not only are their own systems Y2K compliant, but that those of their partners are as well. Failure to recognize this interdependency and to act now to invest in the future will jeopardize U.S. leadership and competitiveness, increase costs for consumers, and raise the bill for repair in the future.

## WORTHWHILE BUT INEFFICIENT BORDER REGULATION

Global trade and uncertain international conditions have raised an array of new national concerns about the quality and use of imported goods in developed as well as developing economies. These concerns have led governments, industry, consumers, and special interest groups to press for enforcement of a growing array of restrictions on goods for export and import. These requirements involve many different federal agencies that have the potential and ability to disrupt supply chains and to increase transaction costs for exports and imports. The national interests involved are broad in scope, and great in diversity and number.

### National Interests Enforced at the Border

Traditional Revenue	Duties	Health and Safety	Food safety	Prohibited Transactions	Drugs, narcotics & controlled substances
	Taxes		Drug & medical device safety		
	Fees				Child pornography
Entry Controls	Quotas		Consumer goods safety		Money laundering
	Dumping				Fraud
	Immigration		Animal disease	International Safety	Anti-terrorism
Supplemental Revenue Generation	Additional special taxes & fees		Plant disease		Gun controls
	Highway use & border fees		Genetic safety		Arms trafficking

Environmental Protection	Insect/pest control		Vehicle safety		Weapons of mass destruction (nuclear, chemical & biological)
	Toxic wastes	Communications Systems	Frequency & radio emission controls		
	Production inputs/ processes				
			Radio wave compliance		
	Manufacturing emissions			Intellectual Property	Patent
		Labor Protection	Children		Trademark
	Endangered species		Prisoners		Copyright

These national interests are legitimate issues of sovereign governments. But if not implemented efficiently, the regulatory environment deployed to protect these interests can become a significant burden on the global trading system. Moreover, these burdens are even greater in countries with governments that simply cannot cope with the increasing volume of trade and the need for safeguards without disruption in the flow of legitimate commerce.

Historically, even the most conscientious of Government agencies have believed that a choice must be made between facilitation of trade and enforcement of laws at the borders. Some governments will use the growing volume of trade and concerns over relatively recent issues such as the environment, food safety, genetically engineered agricultural products, and hormones in beef products as a cover for deliberately protectionist policies. The reality is that the only way to cope with exponentially increasing workloads and achieve improvements in compliance with the laws at the borders is by adopting modern business practices and the new tools of information technology. ITDS will use these new tools to collect a standardized and streamlined set of information while satisfying the needs of the various agencies.

ITDS will improve the enforcement of each agency's trade-related mission by providing data in advance that will allow for the use of sophisticated, agency-specified risk assessment techniques. Using the standard data set, ITDS will facilitate information sharing among Federal agencies. Many of the federal agencies have no automated capabilities today. With ITDS, agencies will be able to access virtually all the transaction information necessary to assess compliance with legal requirements in one place, ITDS.

In short, ITDS can significantly reduce barriers to trade while protecting government's legitimate interests at international borders. The principles under which ITDS was developed (standardized international data elements, universal communications protocols, common practice business processes, single interface to meet all government requirements, and the substitution of information for intrusive inspections) are equally applicable to developed and developing economies. Indeed, increased efficiencies achieved through closer collaboration and electronic sharing of standardized data will enhance the Government's abilities to carry out its critical missions with a minimum of

disruption to legitimate trade flows.

## IMPLEMENTING ITDS DOMESTICALLY WOULD CREATE A MODEL FOR DIGITAL GOVERNMENT THAT IS BOTH EFFICIENT AND EFFECTIVE

ITDS will redefine the trade environment at U.S. borders for industry and the government by enabling the vision of a seamless international buy/sell transaction. This transaction is conducted electronically between importer and exporter, and government requirements on both sides of the international border are satisfied by an integrated electronic transaction. ITDS will accomplish this by:

- providing a single electronic access point for industry with government through which to meet all requirements for international trade
- standardizing and eliminating the duplication of data requirements to support all government agencies involved in international trade
- linking all government processes with international exporters and carriers upstream, and brokers and importers downstream, to create an integrated international supply chain for complying traders in which electronic government processes are transparent to the trading community

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### ITDS WILL IMPROVE GOVERNMENT

- \*Streamlining the processing of goods at U.S. borders by using pre-arrival/pre-departure information.

- \*Reducing the costs of international supply chain management.

- \*Increasing compliance with national and international laws.

- reducing the cost of processing international trade transactions for both the trade community and the government

- improving the enforcement of and compliance with government trade requirements, despite an ever-increasing volume of trade
    - providing access to more accurate, thorough and timely statistics and data about international trade for government and business
    - providing a basis for expanding the same approach to U.S. trading partners and other countries around the world

ITDS is an enabling system and approach that will transform government agencies into information based organizations—fundamentally transforming their basic processes, linking government systems to those of international traders and governments around the world, and shifting performance expectations higher.



GOVERNMENT SYSTEMS AND PROCESSING AT BORDERS: CHANGING MODELS FOR PROGRAM PERFORMANCE			
Program/ Activity	Old Model	Transition	New Model
Processing	Manual, transaction based, tactical	Some automation, some account based	Information and account based, strategic
Automation	Limited	Extensive but of old processes	Fully electronic for government & industry, reengineered processes
Intelligence	Intuition, manual lookouts	Selectivity, transaction based	Risk management, account based, full automation, by company, country, industry, and commodity
Interagency Cooperation	Separate, unique, uncoordinated	Some joint systems and shared information	Shared and integrated systems; shared data bases
International Standards and Data Elements	Limited or unaware	Increasing awareness and some compliance	Worldwide leadership and full compliance
Measurement	Activities, by agency	Outputs, by agency	Outcomes, government wide
Industry Relationship and Communication	Agency by agency, one way, country by country, sovereign	Cooperative, still national	Collaborative, integrated, international
Process Integration	Separate processes for government and industry	Some alignment and interface between government processes and industry/ government processes	Full integration of government processes with industry processes to achieve goals of compliance and facilitation at reduced costs

## EXTENDING ITDS INTERNATIONALLY

As American business trade among more and more countries, the problems encountered when importing and exporting compound. Companies trading in a dozen or more countries may think globally, but soon learn that “all customs is local.” Seamless international supply chain management is exposed as a myth when the problems found at U.S. borders are mirrored by the different, unusual, and non-standard requirements and systems at each foreign border crossed. In each country, the multinational trader will encounter systems, forms, data elements, and requirements that are unique to that country. The multinational trader soon discovers that there is no “system of international trade” but rather a patchwork of similar but unique border barriers that must be addressed individually rather than through the application of a global solution. Due to their resources, multinational companies have better adapted to this environment but at a high cost that is passed on to consumers.

Among the problems faced by companies engaged in international trade are:

- An inability to institute integrated international supply chain management systems and the associated impact on just-in-time, lean manufacturing, and enterprise resource planning systems

- An inability to substitute information for inventory

Billions of dollars in annual unnecessary transaction costs caused by unique and inefficient customs and government formalities at international borders

Reform will require a partnership of world organizations, such as the World Trade Organization (WTO) and the World Customs Organization (WCO), international financial institutions, and global business organizations such as the International Chamber of Commerce (ICC), working with governments and business to effect change and standardize the process. Changing deeply embedded and culturally based systems will be difficult. In addition to a high level coalition of international organizations, these changes will require leadership, leverage, and a model.

ITDS can provide the model, and the United States the leadership. But we should start at home—carefully consolidating and downsizing our own government requirements, and applying experiences and successes in improving government services.

## WHAT NEEDS TO BE DONE TO MAKE ITDS A REALITY

The development of ITDS is based upon concepts proven under NATAP, and updated and improved in ITDS. There are three key priorities for action, to move from concept to implementation.

Leadership. We need focused, effective, and sustained leadership -- from leaders in the Administration and Congress. ITDS depends on major change in the way government does business, which hasn't come easily and ultimately will not happen without clear, effective, and sustained leadership -- from leaders in the Administration and in Congress.

The government has created, reinforced, and perpetuated these problems, and it is only the government that can resolve and overcome them. (Neither the business community nor taxpayers can change stovepipe approaches of multiple government organizations and systems. Legislative action will also eventually be required to sanction and institutionalize more efficient government information collection and sharing processes.)

Focused leadership is also important because the challenge of changing government's approach is especially great. ITDS depends on transforming our government's approach from that of multiple stove-piped agencies, to a single, coordinated approach – managed on behalf of all agencies by an independent, interagency Board of Directors. This is new, cheaper, and more effective government.

Leadership is also justified because the US has traditionally been a leader in reducing barriers to international trade, and as the largest trader in the world, has the most to gain from further reducing barriers for our companies to export into foreign markets.

Urgency. This leadership is needed now, because the costs of the current environment are big, and the opportunities to build exports and competitive advantage for our country and businesses of all sizes, is great.

The cost of the current environment on American business, consumers, and taxpayers is so great that it demands immediate attention. The current environment is a big, frequently fatal, barrier for SME's that want to export to foreign markets. It is a major tax on all trade. It presents the risk that our country and our businesses will lose our position of leadership in international trade, ceding opportunities to build trade processing centers and provide intermodal transportation services to our neighbors to the north and south, and losing our opportunity to gain competitive advantage in global markets.

It is equally clear that the principal challenge here is not technology. The technology can be done quickly, as we see from business operating at internet speed – where the progress of new systems and companies is measured in months, not years and decades. Although much progress has been made in ITDS over the past 5 years, and we are on the brink of beginning operational pilots with Canada and Mexico, these won't happen without leadership. It would be unfortunate (and completely unnecessary) for us to let the timeframe for completing this work drift into years and possibly another decade.

Resources. Finally, resources are also needed to complete development of the pilot and implementation of the program. Fortunately, the required funding is tiny compared with the opportunities – the cost benefit analysis shows a minimum 10:1 return on every dollar invested. The Administration has supported resources of \$5.4 million, which is sufficient to maintain the project office, but not to complete development and begin implementation of the pilot. For these purposes, an additional \$7.6 million is required in FY-2000, for a total of \$13 million.

## CONCLUSION

ITDS represents an important innovation in government and technology support for global trade. It will speed and improve government performance, reduce burden, and cut costs. It will offer major operating and competitive advantages to those countries and governments that embrace it, benefiting consumers and industry. For consumers, it will remove layers of government inefficiency that amount to a significant tax on international goods, reducing sources of supply and raising prices. For international traders, ITDS will significantly lower barriers to importing and exporting, by simplifying identification of and compliance with international trade requirements, and enabling effective global supply chain management.